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INFO RUEHBJ/AMEMBASSY BEIJING 6060
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RUEHOT/AMEMBASSY OTTAWA 0601
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SUBJECT: MONGOLIA'S OPPOSITION PARTY STALLS PARLIAMENT'S MINING DEBATE

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¶1. (SBU) SUMMARY: A recess session of Mongolia's Parliament on key amendments to the Law on Mineral Resources was over almost as soon as it began on March 25, with the opposition Democratic Party (DP) effectively postponing debate. Minutes after the start of the session, the (DP) chief of the Standing Committee on Economics, D. Gankhuyag, informed the Speaker that Parliament's DP Members were formally requesting that debate be postponed until the regular spring session, which opens on April 7. The Democrats got their wish, but left many observers wondering why, given that DP Chairman Elbegdorj had announced, on March 12, that he and the head of the ruling Mongolian People's Revolutionary Party (MPRP), Prime Minister S. Bayar, had reached bipartisan agreement on the concept of the draft law. Privately, some observers said Elbegdorj had underestimated the resistance within the DP to the amendments, which would give the state a 51% stake in "strategic" deposits. They added that some DP MPs had threatened to run as independents in the June 29 Parliamentary elections, and/or withhold crucial campaign funding. Other observers believed that the Democrats postponed the debate in order to prevent the MPRP from claiming credit for the deal before the election. Given U.S. firms' commercial interest in mining and our advocacy responsibilities, post will continue to monitor these issues closely. END SUMMARY.

¶2. (SBU) All eyes were on Parliament March 25 at an extraordinary session to debate controversial amendments to Mongolia's Law on Mineral Resources, but the session lasted only half an hour. For reasons that remain unclear, the opposition DP, with 25 seats in the 76-seat legislature, successfully postponed debate until the spring session. Some DP MPs later said publicly that the delay was intended to give all MPs an opportunity to fully review the legislation. Others said a recess session should only be used for emergencies, and that, given the mining debate's importance, it should be considered in a regular session. (Note: Only 51 MPs were present on March 25 - a number that is statutorily acceptable, but far fewer than the 70 or so who would likely attend the spring session. Many of those who were not present on March 25 were overseas or visiting their constituencies. End Note.)

¶3. (SBU) Some Democratic MPs and their staffers indicated that DP Chief Elbegdorj had underestimated the resistance he would encounter

from other DP members over the amendments. They pointed out that some Democratic heavyweights have mining interests that would likely be undercut by passage of the amendments. They also hinted that some Democratic MPs had threatened to run as independents in the June 29 Parliamentary elections, and/or withhold crucial campaign funding from the DP. (Note: Elbegdorj would have remembered the situation in 2004, when around 10 DP members, many of them influential, turned their back on the DP and ran for Parliament as independents. End Note.)

¶4. (SBU) Some observers wondered why Elbegdorj, an experienced politician, would have committed the DP to a course opposed by so many in the party. A long-serving MPRP MP shared with us his view that the DP, which has members serving in key mining districts, must move on this issue or risk appearing obstructionist. (Comment: The DP responded to civil-society calls for state equity by promoting the idea publicly, but it now finds that the MPRP has co-opted the concepts, policies, and legislation. End Comment.) Another MPRP party rep told us that in his view, DP policies have until now been calibrated to the previous do-nothing Enkhbold Government, and that the activism of the current Bayar administration has caught them off guard. This rep added that the DP may delay but cannot backtrack from the ideas it pushed so vigorously.

¶5. (SBU) The mining industry has ferociously opposed the amendments. Whether as a response to this opposition or for some other reason, lawmakers have recently inserted new text into the draft law. The new legislation would allow for a gradual increase in the Mongolian Government's stake to 51%, and for production sharing contracts (PSC) to be used for the mining of metals, such as copper, at strategic deposits. (Note: Some industry stakeholders claim that PSC's would not work for base metals. End Note.) Despite their disgust for the amendments, many within the industry have concluded

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that some key mining legislation will be passed in the near future, and that it would be better to see such action sooner, rather than a continuation of the current limbo, in which companies cannot determine how to invest in Mongolia.

¶6. (SBU) The idea of 51% state ownership of strategic deposits enjoys strong support among many MPs. Many MPs view the legislation as "sellable" to the public, although many have privately expressed doubts as to whether it would in fact kick-start the mining industry, which economists, businesspeople and political leaders all believe has the potential to propel the Mongolian economy rapidly forward. Although Parliamentary debate on the mining legislation has been temporarily snuffed out, there is reason to believe that the public outcry over the amendments, from mining companies and others, has convinced some MPs that the draft law could deal a severe blow to foreign investment.

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